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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Exemption of Yugoslavia from the terms of the US-UK Satellite aviation policy will bring substantial advantages to that country. After the expected UK concurrence in this exemption has been obtained, there will be no further opposition to the exchange of air rights with Yugoslavia or the sale of aviation equipment to this Satellite, provided these transactions are considered by the contracting western country to be in its national interest. In view of the increased tension with the USSR, Yugoslavia will now desire to exploit immediately the opportunities afforded. (Item No. 1, A)

The USSR has now formalized the hitherto loosely integrated Soviet-Bulgarian civil air services through organization of a new stock company known as TABSO. (Item No. 2, C)

It now appears that the Deputy Foreign Ministers will conclude their conference in London without having resolved the controversial issue of railway rolling stock. Although the Foreign Ministers instructed the Deputies to clarify the term "war booty", which lies at the root of this problem, the Soviet representative, insisting that the terms of reference did not include "moveable" war booty, has refused to discuss the entire rolling stock issue. Unless it is possible to achieve agreement at the Ministerial level, therefore, the rolling stock problem will probably be left for bilateral settlement in direct Austrian-Soviet negotiations outside the framework of the treaty. (Item No. 3, B)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. Exemption of Yugoslavia from the terms of the US-UK Satellite aviation policy will bring substantial advantages to that country. After the expected UK concurrence in this exemption has been obtained, there will be no further opposition to the exchange of air rights with Yugoslavia or the sale of aviation equipment to this Satellite, provided a given transaction is considered by any contracting western country to be in its national interest.

In view of the increased tension with the USSR, Yugoslavia will now desire to exploit immediately the opportunities afforded. Its civil air fleet, known to be in extremely poor condition, may have been depleted by Soviet removal of aircraft following the recent dissolution of the joint Yugoslav-Soviet airline JUSTA. In any case, a substantial portion of the fleet is probably non-operational in view of the difficulties Yugoslavia has experienced in acquiring the necessary spare parts and equipment against western opposition.

Yugoslavia has long desired to establish air connections with Western Europe. As the only present Yugoslav outlet is through Prague, Yugoslavia will now intensify its efforts to establish direct services to non-Cominform areas. While the relaxation of policy will not enable Yugoslavia to acquire combat aircraft from the West, it can substantially increase the potential airlift capabilities of the Yugoslav Air Force by bolstering its civil air fleet. In case of hostilities, moreover, Yugoslavia would be able to use an expanded fleet of transport aircraft for moving high priority freight from western sources.

The relaxation of aviation restrictions with regard to Yugoslavia is dependent upon the continuation of the present Tito-Kremlin breach. Any political development in Yugoslavia, therefore, which again brings this Satellite in line with Kremlin policy, would automatically reinstate the former policy. (Secret)

2. The USSR has now formalized the hitherto loosely integrated Soviet-Bulgarian civil air services through organization of a new stock company known as TABSO. The company, which presumably has absorbed the Bulgarian State Airlines (BVL), doubtless conforms to the pattern of other Soviet-sponsored joint aviation companies such as the Soviet-Rumanian airline TARS and the Soviet-Hungarian airline MAZOVLET. A

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novel feature of this recent move, however, appears to be that Soviet exports to Bulgaria carried by TABSO will be exempt from Bulgarian excise taxes on the ground that they are a Soviet contribution to Bulgaria's capital assets. There is no reason to believe, however, that Soviet air policy will be more generous toward Bulgaria than it has been toward Rumania or Hungary. While the USSR has required its Satellite airlines to provide all necessary ground facilities and installations, it has done little to assist them in modernizing their flying equipment. (Confidential)

SURFACE TRANSPORTATION

3. It now appears that the Deputy Foreign Ministers will conclude their conference in London without having resolved the controversial issue of railway rolling stock. Although the Foreign Ministers instructed the Deputies to clarify the term "war booty", which lies at the root of this problem, the Soviet representative, insisting that the terms of reference did not include "moveable" war booty, has refused to discuss the entire rolling stock issue.

As a result, there is no clarification of the status of over 500 locomotives and 1,100 freight cars owned by the Austrian Federal Railways prior to the Anschluss in March 1938. Although this equipment has not been removed from Austria, the USSR has placed its CCCP mark on it and claimed it as war booty. The US, desirous of insuring that sufficient transport equipment will remain at the disposition of Austria to meet the needs of its economy, has discussed with the French and British Delegations a proposal which is drafted without specific mention of the war booty issue, but which would recognize Austrian title to the pre-Anschluss equipment under dispute as well as equipment acquired by the Austrian Federal Railways since 8 May 1945. Due to the Soviet position, however, this proposal has not been discussed in open session, and unless it is possible to achieve agreement at the Ministerial level, the rolling stock problem will probably be left for bilateral settlement in direct Austrian-Soviet negotiations outside the framework of the treaty. (Secret)

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